

MINUTES OF GREATER ROANOKE TRANSIT COMPANY AUDIT COMMITTEE

December 19, 2005

1. CALL TO ORDER:

The meeting of the Greater Roanoke Transit Company Audit Committee was called to order at 1:03 p.m. on Monday, December 19, 2005, with Chair, Dr. M. Rupert Cutler, presiding.

- The roll was called by Mrs. England

Audit Committee

Members Present: Dr. M. Rupert Cutler, Chair
Mayor C. Nelson Harris
Vice-Mayor Beverly T. Fitzpatrick, Jr.
Sherman P. Lea (late)
Brenda L. McDaniel
Brian J. Wishneff (late)

Audit Committee

Member Absent: Alfred T. Dowe, Jr.

Others Present: Drew Harmon, Municipal Auditor
Darlene L. Burcham, City Manager
William M. Hackworth, City Attorney
Jesse A. Hall, Director of Finance
Ann Shawver, Deputy Director of Finance
Dawn Hope, Manager of Accounting Services
Rolanda B. Russell, Asst. City Manager for Community Development
James Grigsby, Acting Asst. City Manager for Operations
David Morgan, General Manager, GRTC
R. Timothy Conner, Partner, KPMG LLP
Peter J. Ragone, II, Senior Manager, KPMG LLP
Doris England, Administrative Assistant

2. EXTERNAL AUDIT REPORTS:

KPMG Audit Reports:

- A. GRTC – Transit Operations Financial Statements – June 30, 2005 and 2004
- B. GRTC – Report to the Board of Directors – Year Ended June 30, 2005
- C. Southwestern Virginia Transit Management Company, Inc. Retirement Plan and Trust Financial Statements – December 31, 2004 and 2003
- D. Southwestern Virginia Transit Management Company, Inc. Retirement Plan and Trust Report to the Board of Trustees – Year ended December 31, 2004

Dr. Cutler ordered that items A through D be received and filed. There were no objections to the order. The chair recognized Mr. Harmon for comments. Mr. Harmon explained the purpose of this meeting was to give the Audit Committee members an opportunity to ask questions regarding the financial audits of GRTC being presented. He noted that David Morgan, Manager of GRTC, was present as well as representatives of the independent auditing firm KPMG. Mr. Conner is Partner with the local office of KPMG, and Mr. Ragone is Senior Manager.

Mr. Harmon introduced Mr. Conner for comments. Mr. Conner reviewed the Basic Financial Statements and the Report to the Board of Directors. He stated there was one uncorrected misstatement, determined by management to be immaterial, regarding the accrual for compensated absences, or vacation accrual, which was not recorded. Mr. Conner said this is a continual item, which has occurred year after year. This balance could represent a liability in the accrual account that is understated, but has minimal effect on changes of net assets for the year. Chairman Cutler asked if GRTC should change its procedures in this area. Mr. Conner replied that any time KPMG auditors identify an error, they suggest that it be corrected. However, if it is not material, it is the prerogative of management to make that change.

Chairman Cutler asked Mr. Morgan if he would be interested in eliminating this misstatement item in the future. Mr. Morgan explained the bargaining agreement allows a certain percentage of paid days off to be carried over to the next year. He stated it had not been an issue thus far, but GRTC would try to address the matter if the committee recommended doing so. Mr. Fitzpatrick suggested this issue be brought up at a later time after a bargaining agreement has been reached. Mr. Morgan suggested if that is done to spread it out over several years to lessen the impact on any one year. Dr. Cutler asked Mr. Conner for his comments, and he stated that spreading this liability out would probably not be in accordance with generally accepted accounting principles, but he would be happy to pursue alternatives. Chairman Cutler said perhaps this issue should be set aside for now.

Mr. Morgan stated the financial stability of the organization is very strong at this time.

Mr. Fitzpatrick asked Mr. Morgan for a report on the Smart Way bus and number of passengers per day. Mr. Morgan stated the budgetary goal was to have 130 passengers per day. That number was up to 150 in October 2005, but is now back in the 130 range, which is still on target.

Ms. McDaniel noted the operating expenses of GRTC increased by more than one million dollars in 2005 over fiscal year 2003 and asked if that was normal. Mr. Morgan replied that two issues had driven that increase. The operating budget was increased by one hundred percent over last year and still was not enough. Mr. Morgan also stated the paratransit services required under the

Americans with Disabilities Act (ADA) for handicapped and disabled persons had increased expenses. The ages of those in the community had increased and thus services had also increased – 17 to 18 percent over last year alone.

Mr. Fitzpatrick stated that Mr. Lea has been serving on the Transportation Committee appointed by the Governor, and there is a significant opportunity for the city to obtain additional transit funds if the recommendations are approved by the General Assembly. Mr. Lea confirmed this and stated the amount being pursued is about four million dollars. Mr. Morgan said he understood these funds would be distributed as a one-time use for capital projects, and Mr. Lea said that was correct. Mr. Morgan noted that would not offset the operational expenses of GRTC. Ms. Burcham stated she understood the funds would be used for an addition to the Campbell Court garage and for bus shelters.

Mr. Harmon asked Mr. Morgan to address the increase in parts inventory. Mr. Morgan stated that grants have allowed GRTC to accumulate a large parts inventory, which includes spare engines and spare transmissions. This means a bus will be down for repairs for only a day or two instead of weeks. Mr. Morgan stated the cost to GRTC is minimal, and having the inventory on hand helps to offset operating costs.

Chairman Cutler asked Mr. Morgan if the year ended in the black. Mr. Morgan replied that the 2005 fiscal year ended \$31,000 in the red.

3. UNFINISHED BUSINESS:

There was no unfinished business to come before the Committee.

4. NEW BUSINESS:

There was no new business to come before the Committee.

5. ADJOURNMENT:

There being no further business, the meeting was adjourned at 1:24 p.m.

A handwritten signature in dark ink, appearing to read "M. Rupert Cutler", is written over a horizontal line.

M. Rupert Cutler, Chair